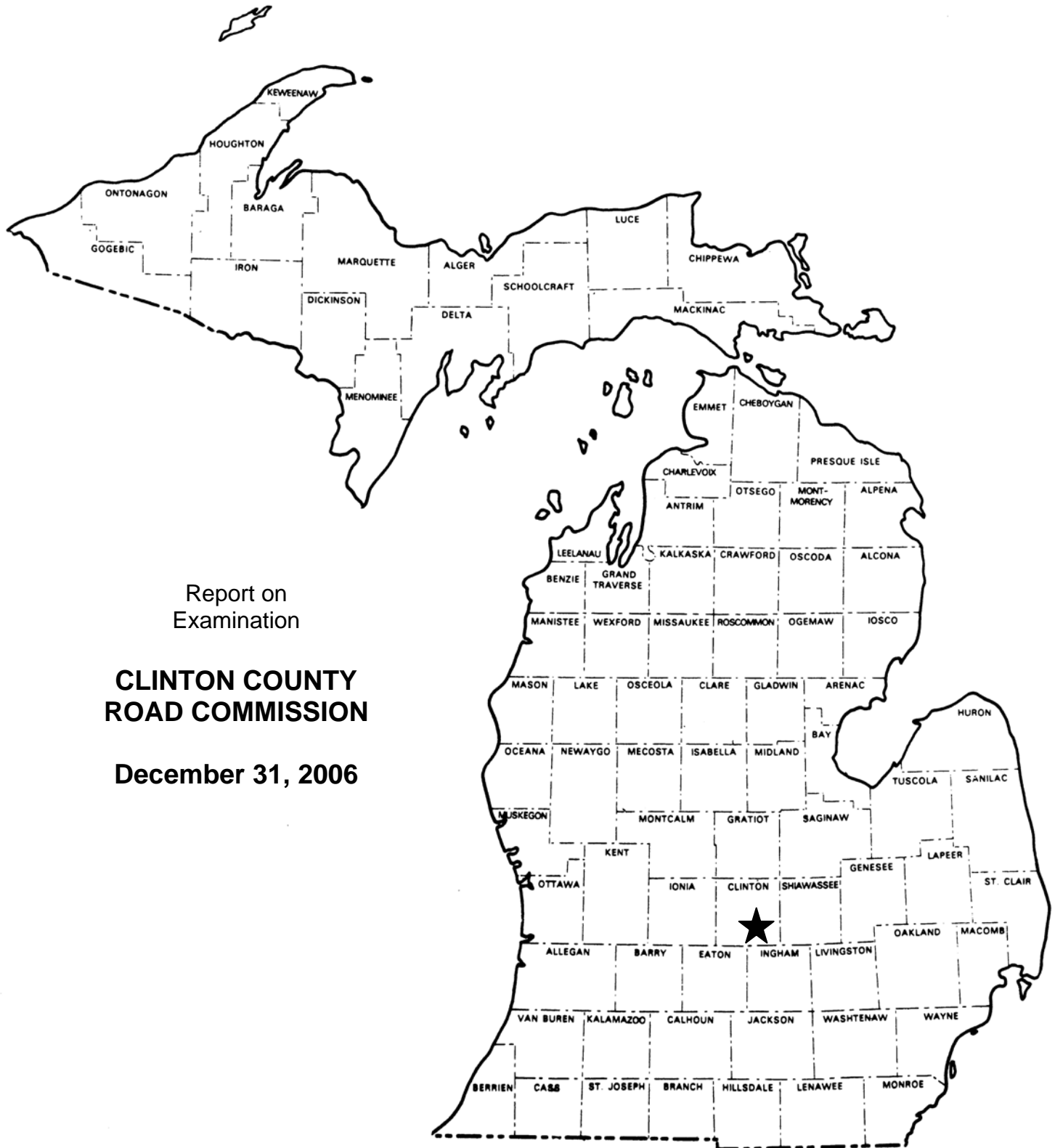


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



Report on
Examination

**CLINTON COUNTY
ROAD COMMISSION**

December 31, 2006

CLINTON COUNTY ROAD COMMISSION
BOARD OF COUNTY ROAD COMMISSIONERS

Donald J. Sisung
Chairman

Russel Bauerle
Vice Chairman

Francis Trierweiler
Member

Michael M. Nobach
Managing Director

Daniel Armentrout
County Highway Engineer

Patricia E. Wysong
Director of Finance/Clerk

COUNTY POPULATION--2000
64,753

STATE EQUALIZED VALUATION--2006
\$3,010,358,205



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

March 5, 2007

Clinton County Road Commission
Board of County Road Commissioners
3535 South US 27
St. Johns, Michigan 48879

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying basic financial statements of the Clinton County Road Commission, a component unit of Clinton County, Michigan, as of and for the year ended December 31, 2006, as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Clinton County Road Commission as of December 31, 2006 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 5, 2007 on our consideration of the Clinton County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on

compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 1 through 9 and the budget comparison information in Exhibits G and H are not part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Clinton County Road Commission's basic financial statements. The accompanying supplementary and related information presented as Exhibits I through K is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

CLINTON COUNTY ROAD COMMISSION

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CLINTON COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

Our discussion and analysis of Clinton County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2006. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a longer-term view of their finances. Fund financial statements tell how these services were financed in the short term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

Overview of the Financial Statements

This annual report consists of four parts--Management's Discussion and Analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities--this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds, reporting the operations in more detail than the government wide-statements.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Reporting the Road Commission as a Whole

Government-Wide Statements

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities.

CLINTON COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Statement of Net Assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two statements, mentioned above, report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission you need to consider additional nonfinancial factors such as changes in the county's property tax base, the condition of the Road Commission's roads and changes in the law related to the gas taxes and its distribution.

Fund Financial Statements

The Road Commission has only one fund, the General Operations Fund, which is a governmental fund type.

The Governmental Fund focuses on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental Fund Statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental Fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the Governmental Fund in a reconciliation following the Fund Financial Statements.

Financial Analysis of the Road Commission as a Whole

The Road Commission's net assets increased from \$52,837,768 to \$55,538,039 for the year ended December 31, 2006. The net assets and change in net assets are summarized below:

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. As such, all assets (except for assets invested in capital assets-net of related debt) are considered restricted.

CLINTON COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The increase in capital assets was due to an increase of \$147,529 for subdivision road right-of-way accepted into the public road system, \$302,274 in land improvement expenditures on the road system, and \$2,425,789 in net addition to the infrastructure system.

The increase in noncurrent liabilities was due to a \$980 decrease in state trunkline advances for maintenance, \$7,500 decrease in the Piggott Pit gravel purchase contract, and \$48,748 increase in the vested employee benefits payable for 2006.

Net assets as of year ended December 31, 2006 compared to the prior year follows:

	2005	2006	Variance Increase (Decrease)	%
Current and Other Assets	\$ 4,905,724	\$ 5,053,432	\$ 147,708	3.01%
Net Capital Assets	49,323,267	51,904,268	2,581,001	5.23%
Total Assets	54,228,991	56,957,700	2,728,709	5.03%
Current Liabilities	402,436	388,646	(13,790)	-3.43%
Long-Term Liabilities	988,787	1,031,015	42,228	4.27%
Total Liabilities	1,391,223	1,419,661	28,438	2.04%
Net Assets				
Invested in Capital Assets				
Net of Related Debt	49,323,267	51,904,268	2,581,001	5.23%
Restricted	3,514,501	3,633,771	119,270	3.39%
Total Net Assets	\$52,837,768	\$55,538,039	\$2,700,271	5.11%

Changes in Net Assets

The net increase in total revenue was due to a \$25,645 decrease in permit applications, a \$1,673,266 increase in Federal grants and a \$44,540 decrease in State grants related to Federal/State funded projects, a \$804,451 increase in contributions from local units from an increase in township participation in projects, a \$300,742 decrease in charges for services related to decreased trunkline maintenance expenditures, a \$102,472 increase in investment earnings related to increased interest rates and an increased cash balance due to the establishment of a building fund and discretionary fund, and a \$1,948,708 decrease in private contributions related to a decrease in subdivision roads constructed and accepted into the public road system.

CLINTON COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The net increase in total expenses was due to a \$366,052 decrease in road maintenance costs primarily attributable to routine maintenance work, a \$255,655 decrease in state trunkline maintenance costs, a \$392,509 increase in net equipment expense related to depreciation, a \$119,850 increase in administrative expense due mainly to increased retirement expense, a \$62,411 decrease in infrastructure depreciation due to decreased road work performed that is classified as infrastructure assets, a \$22,509 decrease in work for other agency cost mainly attributable to less work performed for the county, and a \$4,354 decrease in drainage district due to a decrease in the county at-large drain assessment.

A summary of changes in net assets for the year ended December 31, 2006 compared to the prior year follows:

	2005	2006	Favorable (Unfavorable) Variance	Variance %
Program Revenue				
License and Permits	\$ 104,710	\$ 79,065	\$ (25,645)	-24.49%
Federal Grants	712,876	2,386,142	1,673,266	234.72%
State Grants	6,491,956	6,447,416	(44,540)	-0.69%
Contributions From Local Units	1,266,281	2,070,732	804,451	63.53%
Charges for Services	1,430,966	1,130,224	(300,742)	-21.02%
Investment Earnings	77,614	180,086	102,472	132.03%
Refunds and Rebates	-	1,288	1,288	100.00%
Private Contributions	3,284,091	1,335,383	(1,948,708)	-59.34%
General Revenue				
Gain on Equipment Disposal	79,579	47,851	(31,728)	-39.87%
Loss on Infrastructure Removal	(107,670)	-	107,670	100.00%
Total Revenue	<u>13,340,403</u>	<u>13,678,187</u>	<u>337,784</u>	<u>2.53%</u>
Expenses				
Primary Road Maintenance	1,825,864	1,590,507	235,357	12.89%
Local Road Maintenance	3,647,483	3,516,788	130,695	3.58%
State Trunkline Maintenance	1,332,074	1,076,419	255,655	19.19%
Net Equipment Expense	118,372	510,744	(392,372)	-331.47%
Net Administrative Expense	475,290	595,140	(119,850)	-25.22%
Infrastructure Depreciation	3,603,328	3,540,917	62,411	1.73%
Work for Other Agencies	182,657	160,148	22,509	12.32%
Drainage District	41,659	37,305	4,354	10.45%
Compensated Absences	44,009	48,748	(4,739)	-10.77%
Interest Expense	1,800	1,200	600	33.33%
Total Expenses	<u>11,272,536</u>	<u>11,077,916</u>	<u>194,620</u>	<u>1.73%</u>
Increase in Net Assets Before Transfers	2,067,867	2,600,271	143,164	6.92%
Transfers In--Primary Government	-	100,000	100,000	100.00%
Increase in Net Assets	<u>2,067,867</u>	<u>2,700,271</u>	<u>\$ 243,164</u>	<u>11.76%</u>
Ending Net Assets	<u>\$ 52,837,768</u>	<u>\$ 55,538,039</u>		

CLINTON COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county that are earmarked by law for road and highway purposes.

For the year ended December 31, 2005, program revenues exceeded program expenditures by \$545,199 while 2006 resulted in an excess of \$60,518 of program revenue over program expenditures, mainly as a result of additional Federal grants and contributions from local units.

A summary of changes in the Operating Fund is as follows:

	2005	2006	Favorable (Unfavorable) Variance	Variance %
Revenues				
License and Permits	\$ 104,710	\$ 79,065	\$ (25,645)	-24.49%
Federal Grants	712,876	2,386,142	1,673,266	234.72%
State Grants	6,491,957	6,447,416	(44,541)	-0.69%
Contributions From Local Units	1,266,281	2,070,732	804,451	63.53%
Charges for Services	1,430,965	1,130,223	(300,742)	-21.02%
Investment Earnings	77,614	180,086	102,472	132.03%
Other Revenue	3,363,670	1,384,522	(1,979,148)	-58.84%
Total Revenue	13,448,073	13,678,186	230,113	1.71%
Expenditures				
Public Works	12,324,735	13,008,509	(683,774)	-5.55%
Capital Outlay	568,839	600,459	(31,620)	-5.56%
Debt Service	9,300	8,700	600	6.45%
Total Expenditures	12,902,874	13,617,668	(714,794)	-5.54%
Excess of Revenues (Over) Under Expenditures	545,199	60,518	(484,681)	-88.90%
Other Financing Sources				
Transfers In--Primary Government	-	100,000	100,000	100.00%
Excess of Revenues and Other Financing Sources (Over) Under Expenditures	545,199	160,518	(384,681)	-70.56%
Fund Balance Beginning	3,617,466	4,162,665	545,199	15.07%
Fund Balance Ending	\$ 4,162,665	\$ 4,323,183	\$ 160,518	3.86%

CLINTON COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions utilizing facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2006 was \$736,265 higher than the original budget, primarily due to subdivision roads constructed and placed in the public road system as well as additional maintenance work performed on the county road system, increased interest from return on investments, and increased township contributions. The actual revenue recognized during 2006 was less than the final amended budget by \$1,639,378, with \$1,182,534 of this amount as a result of Federal and State grant funded projects not being invoiced by Michigan Department of Transportation prior to the close of 2006.

The final amended expenditure budget for 2006 was \$416,074 higher than the original budget due mainly to an increase in primary road maintenance expenditures of \$740,640 and an increase in local road maintenance expenditures of \$742,977 as a result of additional routine maintenance work performed. The actual expenditures recognized during 2006 were less than the final amended budget by \$2,577,385. This deficit of expenditures over budgeted projections was due primarily to Federal aid road and bridge projects not completed in the amount of \$2,071,487.

CLINTON COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets

As of December 31, 2006, the Road Commission had \$51,904,268 invested in capital assets as follows:

	2005	2006	Favorable (Unfavorable) Variance	Variance %
Capital Assets Not being Depreciated				
Land	\$ 283,750	\$ 283,750	-	0.00%
Land Improvements	4,984,134	5,286,407	\$ 302,273	6.06%
ROW Easements	815,551	963,081	147,530	18.09%
Subtotal	6,083,435	6,533,238	449,803	7.39%
Capital Assets Being Depreciated				
Buildings	1,735,798	1,735,798	-	0.00%
Depletable Assets	63,115	63,115	-	0.00%
Equipment	5,616,918	6,031,615	414,697	7.38%
Infrastructure	69,971,707	72,397,496	2,425,789	3.47%
Subtotal	77,387,538	80,228,024	2,840,486	3.67%
Total Capital Assets	83,470,973	86,761,262	3,290,289	3.94%
Total Accumulated Depreciation	34,147,707	34,856,994	1,515,343	4.44%
Total Net Capital Assets	<u>\$49,323,266</u>	<u>\$ 51,904,268</u>	<u>\$ 1,774,946</u>	<u>3.60%</u>

During the current year, the Road Commission invested \$6,190,278 in infrastructure capital assets including the addition of 2.24 miles of newly constructed public roadway, and \$600,459 in other capital assets. The infrastructure recorded during 2006 will be depreciated in the following year. The infrastructure is financed through Federal, State and local contributions.

This year's major capital assets additions included the following:

Various Resurfacing Projects and Related ROW	\$5,057,084
Bridges	992,620
Traffic Signals	140,574
Trucks/Equipment	595,632
Office and Engineering Equipment	4,827
Total Additions	<u>\$ 6,790,737</u>

CLINTON COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

During 2006, the Road Commission traded in and/or disposed of equipment with a purchase amount of \$185,763 and related depreciation of \$176,324 with a net book value of \$9,439. A total of \$3,314,686 of infrastructure assets, fully depreciated, was removed from the capital asset accounts.

In 2007, we are projecting the purchase of 1 backhoe, 1 grader, 1 small steel drum roller, 2 night patrol trucks, 1 wing kit for a grader, 4 ½-ton pickups, 1 arm mower, and 2 weighmaster scales for a total of \$492,900; shop equipment of 1 steam cleaner/pressure washer, 1 drill press, 1 welder/generator, 1 small fork lift for a total of \$16,500; office equipment of \$10,000; and the remaining water/sewer connection estimated at \$300,000 for a total of \$819,400.

Debt

At the end of the year, the Road Commission had paid \$7,500 in principal on a purchase agreement for gravel reducing the balance to \$7,500.

Other obligations include accrued vacation pay and sick leave in the amount of \$681,912 at the end of 2006.

Economic Factors and Next Year's Budget

The Board of County Road Commissioners considered many factors when setting the fiscal year 2007 budget. One of the factors is the economy. The Road Commission derives approximately 44% of its revenues from the fuel tax and license plate fees collected. Using Michigan Department of Transportation projections, it is estimated that the Road Commission will receive \$182,080 (3%) more Michigan Transportation Fund revenue in 2007. The Road Commission received approximately 14% of its revenues from township contributions during 2006, this amount fluctuates with the approved road projects and depends on what and how much the townships can afford to participate in. In 2006, we received 10% of our revenue from contractor built subdivision road donations. During 2007, we expect to receive \$5,964,457 in Federal and State aid for road projects if they are completed during the 2007 construction season. In 2005, the Board of Clinton County Road Commissioners authorized an actuarial valuation of all post employment benefits with a determined unfunded liability of \$10,671,863 with \$6,340,965 represented by current retirees and \$4,330,898 represented by current employees. The Board of Clinton County Road Commissioners has established a trust fund through Michigan Employees Retirement System for future employee retirement benefits with \$60,000 contributed to this fund in 2006 and \$60,000 to be contributed to this fund in 2007.

The above items were considered when adopting the budget for 2007. Amounts available for appropriation in the budget are \$15,720,508 representing an increase of .4% over the 2006 budget of \$15,778,980.

CLINTON COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Contacting the Road Commission's Financial Management

The financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Clinton County Road Commission Director of Finance at 3536 South BR-127, St. Johns, Michigan 48879.

**CLINTON COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
December 31, 2006**

EXHIBIT A

ASSETS

Cash	\$ 3,572,243
Accounts Receivable	
Sundry Accounts	23,053
State--Trunkline Maintenance	99,356
Michigan Transportation Fund	937,417
Inventories	
Road Materials	312,805
Equipment Parts and Materials	108,558
Capital Assets (Net of Accumulated Depreciation)	51,904,268
	<hr/>
Total Assets	56,957,700

LIABILITIES

Current Liabilities	
Accounts Payable	75,645
Due to State of Michigan	79,239
Accrued Liabilities	47,621
Performance Bonds Payable	186,141
Non-Current Liabilities	
State Trunkline Advances	341,603
Installment Purchase Agreements Payable--Due Within One Year	7,500
Vested Employee Benefits Payable	681,912
	<hr/>
Total Liabilities	1,419,661

NET ASSETS

Investment in Capital Assets--Net of Related Debt	51,904,268
Restricted for County Roads	3,633,771
	<hr/>
Total Net Assets	\$55,538,039

The Notes to Financial Statements are an integral part of this statement.

CLINTON COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2006

EXHIBIT B

Program Expenses	
Primary Road Maintenance	\$ 1,590,507
Local Road Maintenance	3,516,788
State Trunkline Maintenance	1,076,419
Net Equipment Expense	510,744
Net Administrative Expense	595,140
Work for Other Agencies	160,148
Infrastructure Depreciation	3,540,917
Drainage District	37,305
Compensated Absences	48,748
Interest Expense	1,200
	<hr/>
Total Program Expenses	11,077,916
	<hr/>
Program Revenue	
Charges for Services	
Licenses and Permits	79,065
Charges for Services	1,130,224
Refunds and Reimbursements	1,288
Operating Grants and Contributions	
Michigan Transportation Funds	6,069,350
Investment Earnings	180,086
Capital Grants and Contributions	
Federal Grants	2,386,142
State Grants	378,066
Contributions From Local Units	2,070,732
Private Contributions	1,335,383
	<hr/>
Total Program Revenue	13,630,336
	<hr/>
Net Program Revenue	2,552,420
	<hr/>
General Revenue	
Gain on Disposal of Capital Assets	47,851
Transfers In--Primary Government	100,000
	<hr/>
Total General Revenues and Transfers	147,851
	<hr/>
Change in Net Assets	2,700,271
	<hr/>
Net Assets	
Beginning of Year	52,837,768
	<hr/>
End of Year	\$ 55,538,039
	<hr/>

The Notes to Financial Statements are an integral part of this statement.

**CLINTON COUNTY ROAD COMMISSION
BALANCE SHEET
DECEMBER 31, 2006**

EXHIBIT C

**GOVERNMENTAL
FUND TYPE**

General
Operating
Fund

ASSETS

Cash	\$ 3,572,243
Accounts Receivable	
State Trunkline Maintenance	99,356
Michigan Transportation Fund	937,417
Sundry Accounts	23,053
Inventories	
Road Materials	312,805
Equipment Parts and Materials	108,558
Total Assets	<u>\$ 5,053,432</u>

LIABILITIES AND FUND EQUITY

Liabilities	
Accounts Payable	\$ 75,645
Accrued Liabilities	47,621
Due to State of Michigan	79,239
Performance Bonds Payable	186,141
Advances From State	341,603
Total Liabilities	<u>730,249</u>
Fund Equities	
Fund Balance	
Reserved for Inventory	421,363
Unreserved and Undesignated	3,901,820
Total Fund Equities	<u>4,323,183</u>
Total Liabilities and Fund Equities	<u>\$ 5,053,432</u>

The Notes to Financial Statements are an integral part of this statement.

**CLINTON COUNTY ROAD COMMISSION
RECONCILIATION OF THE BALANCE SHEET FUND
BALANCES TO THE STATEMENT OF NET ASSETS
For the Year Ended December 31, 2006**

EXHIBIT D

Total Governmental Fund Balance	\$ 4,323,183
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Amounts reported for governmental activities in the Statement of Net Assets are
are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	51,904,268
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Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds.	<u>(689,412)</u>
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Net Assets of Governmental Activities	<u><u>\$ 55,538,039</u></u>
---------------------------------------	-----------------------------

The Notes to Financial Statements are an integral part of this statement.

**CLINTON COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
For the Year Ended December 31, 2006**

EXHIBIT E

	<u>Operating Fund</u>
Revenues	
License and Permits	\$ 79,065
Federal Grants	2,386,142
State Grants	6,447,416
Contributions From Local Units	2,070,732
Charges for Services	1,130,223
Interest and Rents	180,086
Other Revenue	<u>1,384,522</u>
Total Revenues	<u>13,678,186</u>
Expenditures	
Public Works	13,008,509
Capital Outlay	600,459
Debt Service	<u>8,700</u>
Total Expenditures	<u>13,617,668</u>
Excess of Revenues Over (Under) Expenditures	<u>60,518</u>
Other Financing Sources	
Transfers In--Primary Government	<u>100,000</u>
Total Other Financing Sources	<u>100,000</u>
Excess of Revenues and Other Financing Sources Over Expenditures	160,518
Fund Balance--January 1, 2006	<u>4,162,665</u>
Fund Balance--December 31, 2006	<u><u>\$ 4,323,183</u></u>

The Notes to Financial Statements are an integral part of this statement.

**CLINTON COUNTY ROAD COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2006**

EXHIBIT F

Net Change in Fund Balance--Total Governmental Funds	\$ 160,518
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Amounts reported for governmental activities in the statement are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	2,581,001
Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the Statement of Activities.	

Lease proceeds provide current financial resources to governmental funds, but entering into lease agreements increases long-term liabilities in the Statement of Net Assets. Repayment of notes/leases payable is an expenditure in governmental funds, but reduces the long-term liabilities in the Statement of Net Assets	7,500
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (Increase in compensated absences and decrease in interest expense)	<u>(48,748)</u>
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Change in Net Assets of Governmental Activities	<u><u>\$ 2,700,271</u></u>
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The Notes to Financial Statements are an integral part of this statement.

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

The accounting policies of the Clinton County Road Commission conform to generally accepted accounting principles in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Clinton County Road Commission.

NOTE A--REPORTING ENTITY

The Clinton County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a 3-member board of county road commissioners appointed by the county board of commissioners. The Road Commission may not issue debt without the county's approval and property tax levies for road purposes are subject to county board of commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Clinton County Road Commission, a discretely presented component unit of Clinton County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of county road commissioners is responsible for the administration of the Road Commission Operating Fund.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Clinton County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets--net of related debt, or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the Operating Fund (governmental fund). The Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: 1) charges to customers or applicants for goods or services or privileges provided; and 2) Michigan Transportation Funds (MTF), State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

When both restricted and unrestricted resources are available for use, it is the Road Commission's policy to use restricted resources first, then unrestricted resources as needed.

Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan Transportation Funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Bank Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are priced at cost as determined by the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations, as used.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges and similar items) are reported in the Operating Fund in the government-wide financial statements. Capital assets are defined by Clinton County Road Commission as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Schedule C equipment has no minimum cost. However, such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	5 to 30 years
Infrastructure--Bridges	12 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Operating Fund Statement of Net Assets.

Other Financing Sources (Uses)

In the fund financial statements, the transfers of cash between the various county funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case they are carried as assets and liabilities of the advancing or borrowing funds. In 2006, the Road Commission received a \$100,000 transfer from the primary government to purchase equipment.

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE C--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Procedures

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, (MCL 141.421) which requires the county board of road commissioners to approve a budget for the County Road Fund. The Road Commission's chief fiscal administrative officer (Director of Finance) prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board conducts a public budget hearing and, subsequently, adopts an operating budget. Amendments to the budget are made only with board approval. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the fund financial statements.

Budget Violations

Public Act 2 of 1968, as amended, requires the adoption of a balanced budget for general and special revenue funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. The Road Commission has not complied with certain provisions of the act.

The following activities exceeded the amended budget:

	Budget	Actual	(Unfavorable) Variance
Local Road Structures			
Routine and Preventive Maintenance	\$ 29,011	\$ 29,635	\$ (624)
Equipment Expense--Net	(56,104)	510,744	(566,848)
Administrative Expense--Net	386,359	595,140	(208,781)
Work for Other Agencies	126,022	160,148	(34,126)
Drainage District	37,058	37,305	(247)

NOTE D--CASH AND INVESTMENTS

Deposits are carried at cost. Deposits of the County Road Fund are made in six banks in the name of the Clinton County Treasurer. Public Act 20 of 1943, as amended, authorizes the county treasurer to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities, and direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; commercial paper rated by two standard rating agencies within the two highest classifications, which matures not more than 270 days after the date of purchase; and obligations of the State of Michigan or its political subdivisions which are rated investment grade. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Road Commission deposits are in accordance with statutory authority.

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INVESTMENTS (Continued)

The board of county road commissioners has adopted an investment policy similar to the county's policy in accordance with investment provisions in Public Act 20 of 1943.

The Road Commission's insured deposit amount results from the County Road Fund meeting certain specified criteria under FDIC regulations. The risk disclosures for the Road Commission deposits, as required by the GASB Statement No. 40, are as follows:

At year end (and during the year), the Road Commission did not have any investments other than long-term certificates of deposits, the deposits were reported in the basic financial statements in the following categories:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposits)	<u>\$3,572,243</u>
Total	<u><u>\$3,572,243</u></u>

The bank balance of the Road Commission's deposits is \$3,692,945, of which \$600,000 is covered by Federal depository insurance.

Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy authorizes investment in all those that are authorized by law. As stated above, the Road Commission did not have any investments in the fiscal year ended December 31, 2006.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Road Commission's investment policy contains specific provisions to limit their exposure to credit risk.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Road Commission's investment policy contains specific provisions to limit their exposure to interest rate risk.

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer where the investment is 5% or greater.

The Road Commission's investment policy requires assets to be diversified to eliminate the risk of loss resulting from over concentration in a specific maturity, individual financial institution(s) or a specific class of securities.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law does not contain requirements that would limit the exposure to custodial credit risk for deposits. However, the asset diversification requirements included in the Road Commission's investment policy would limit, to some extent, exposure to custodial credit risk for deposits.

NOTE E--LONG-TERM DEBT

The long-term debt of the Road Commission may be summarized as follows:

	<u>Balance 01/01/06</u>	<u>Additions (Reductions)</u>	<u>Balance 12/31/06</u>	<u>Due Within One Year</u>
Installment Purchase Contract				
\$75,500 Dated December 15, 1998	\$ 15,000	\$ (7,500)	\$ 7,500	\$7,500
Vested Employee Benefits				
Vacation, Sick Leave and Longevity	<u>633,164</u>	<u>48,748</u>	<u>681,912</u>	<u> </u>
Totals	<u>\$648,164</u>	<u>\$ 41,248</u>	<u>\$ 689,412</u>	<u>\$7,500</u>

Installment Purchase Contract

The installment purchase contract was entered into for aggregate sand and gravel. The agreement bears interest at 8% per annum and is payable as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	<u>\$ 7,500</u>	<u>\$ 600</u>	<u>\$ 8,100</u>
Total	<u>\$ 7,500</u>	<u>\$ 600</u>	<u>\$ 8,100</u>

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE E--LONG-TERM DEBT (Continued)

Vested Employee Benefits Payable

	Balances	Additions	Balances
	<u>01/01/06</u>	<u>(Reductions)</u>	<u>12/31/06</u>
Vested Employee Benefits			
Vacation Benefits	\$154,241	\$12,861	\$167,102
Sick Leave Benefits	349,429	21,886	371,315
Longevity	<u>129,494</u>	<u>14,001</u>	<u>143,495</u>
Total	<u>\$633,164</u>	<u>\$48,748</u>	<u>\$681,912</u>

Vacation Benefits

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of an employee. Benefits earned by each employee are credited annually to his or her account on the anniversary date of employment. The maximum allowable accumulation is 248 hours for administrative employees and 240 hours for union employees. For administrative and office union employees, up to one-half of their accumulated vacation hours may be converted to cash within 6 months of their anniversary date. Road union employees may convert to cash in the week after their anniversary date. Union office and administrative employees would be paid zero if they leave without notice.

Sick Leave Benefits

The Road Commission's employment policies provide that every regular employee shall earn sick leave with pay at the rate of 2 hours per week, not to exceed 104 hours per year, with a maximum accumulation of 1,360 hours. Upon retirement or death, an employee shall be paid for all unused sick leave. One-half of accumulated sick leave shall be paid upon resignation of an employee. Payments to the employee or the named beneficiary shall be made at the prevailing rate of pay at the time of employment termination. Sick leave is recorded at 100% of maximum payable leave. Union office and administrative employees would be paid zero if they leave without notice.

Longevity Benefits

Administrative employees accumulate longevity of 24 to 48 hours per year, not to exceed 1,056 hours maximum. Payment can be made at separation after 5 years of service. Longevity is recorded at 100% of maximum payable. Longevity is earned and can be sold on the anniversary date.

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS

The following is a summary of the changes in the capital assets:

	Account Balances 01/01/06	Additions	Deductions	Account Balances 12/31/06
Capital Assets Not Being Depreciated				
Land	\$ 283,750			\$ 283,750
Infrastructure--Land/Right-of-Way	815,552	\$ 147,529		963,081
Infrastructure--Land Improvements	4,984,134	302,273		5,286,407
Subtotal	6,083,436	449,802	\$ -	6,533,238
Capital Assets Being Depreciated				
Buildings	1,735,798			1,735,798
Road Equipment	5,406,805	595,632	174,051	5,828,386
Shop Equipment	72,560			72,560
Office Equipment	104,662	4,828	11,712	97,778
Engineers' Equipment	22,684			22,684
Yard Equipment	10,207			10,207
Depletable Assets	63,115			63,115
Infrastructure--Bridges	23,545,998	992,620	194,813	24,343,805
Infrastructure--Roads	46,196,057	4,607,281	3,119,873	47,683,465
Infrastructure--Traffic Signals	229,652	140,574		370,226
Total	77,387,538	6,340,935	3,500,449	80,228,024
Less Accumulated Depreciation				
Buildings	871,652	44,417		916,069
Road Equipment	4,072,308	596,471	166,680	4,502,099
Shop Equipment	48,706	3,916		52,622
Office Equipment	78,316	12,865	9,644	81,537
Engineer's Equipment	19,536	691		20,227
Yard Equipment	1,787	1,020		2,807
Reserve for Depletable Assets	40,473			40,473
Infrastructure--Bridges	11,464,101	457,969	194,813	11,727,257
Infrastructure--Roads	17,542,575	3,082,635	3,119,873	17,505,337
Infrastructure--Traffic Signals	8,253	313		8,566
Total	34,147,707	4,200,297	3,491,010	34,856,994
Net Capital Assets Being Depreciated	43,239,831	6,340,935	4,209,736	45,371,030
Total Net Capital Assets	<u>\$ 49,323,267</u>	<u>\$ 6,790,737</u>	<u>\$ 4,209,736</u>	<u>\$ 51,904,268</u>

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS (Continued)

Depreciation expense was charged to the following activities:

	<u>Amount</u>
Net Equipment Expense	
Direct Equipment	\$ 596,471
Indirect Equipment	
Buildings	27,770
Shop Equipment	4,937
Distributive Expense	
Buildings	12,496
Net Administrative Expense	
Buildings	4,150
Engineers Equipment	691
Office Equipment and Furniture	12,865
Infrastructure	<u>3,540,917</u>
Total Depreciation Expense	<u>\$4,200,297</u>

NOTE G--DEFERRED COMPENSATION PLAN

The Clinton County Board of Road Commissioners offers all Road Commission employees deferred compensation plans created in accordance with the Internal Revenue Code (IRC), Section 457 with Public Employees' Benefit Services Corporation (PEBSCO). The assets of the plans were held in a trust, custodial account or annuity contract described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian thereof for the exclusive benefit of the participants and beneficiaries of this Section 457 plan and the assets may not be diverted to any other use. The administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time to the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32 requirements, plan balances and activities are not reflected in the Road Commission's financial statements.

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE H--EMPLOYEES' RETIREMENT SYSTEM

Description of Plan and Plan Assets

The Clinton County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death, duty-connected death, and post-retirement adjustments to plan members and their beneficiaries. The service requirement for all qualified employees is computed using credited service at the time of termination of membership multiplied by the sum of 2.5% times the final average compensation (FAC) with 5-year averaging for office and road union and 3-year averaging for administrative, with a maximum benefit of 80% of the FAC. Administrative retirees have a benefit 'E-1 and E-2' plan allowing for a 2.5% annual increase. The most recent period for which actuarial data was available was for the year ended December 31, 2005.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851, as amended, (MCL 46.12a) State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The Road Commission is required to contribute at an actuarially determined rate. Based on the 2003 actuarial valuation, the 2005 rate for general-union/AFLCIO, administrative salary and administrative hourly employees was 7.55%, 12.40% and 7.43%, respectively, of annual compensation. For 2006, the actuarial valuation was based on the 2004 rate for general-union/AFLCIO, administrative salary and administrative hourly employees which was 9.27%, 12.80% and 6.59%, respectively, of annual compensation. Each member is required to contribute 3% of his or her annual compensation and 3% was paid by the employees for both years.

Annual Pension Cost

During the year ended December 31, 2005, the Road Commission's contributions totaled \$224,418 and the employee contributions totaled \$74,327, and were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2003, and 3% employee share. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit. During the year ended December 31, 2006, the Road Commission contributed \$235,138 and the employees contributed \$73,052. Based on the 2004 actuarial valuation the Road Commission was required to contribute an estimated \$248,100 for the 2006 fiscal year.

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE H--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three Year Trend Information for GASB Statement No. 27

<u>Year Ended December 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	\$ 254,222	100%	\$0
2004	275,439	100%	\$0
2005	298,745	100%	\$0

Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded (Overfunded) AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/03	\$ 9,474,982	\$10,688,081	\$ 1,213,099	89%	\$ 2,401,406	51%
12/31/04	9,824,701	11,443,164	1,618,463	86%	2,411,623	67%
12/31/05	10,178,132	12,843,023	2,664,891	79%	2,448,290	109%

NOTE I--POST-EMPLOYMENT HEALTH CARE BENEFITS

The Road Commission agrees to pay the full premium for hospitalization medical coverage for retired employees and their spouses, in accordance with the agreement between the Road Commission management and the American Federation of State, county, and municipal employees, AFL-CIO Office Union employees must retire with a minimum of 25 years of service and age 55 to be eligible for Road Commission paid health insurance for the retiree and spouse. If the retired employee wishes to purchase full family coverage, he shall pay the difference between the two-person and the full family rate. This provision applies to employees who retire after January 1, 1975 and who qualify under the MERS retirement program. Upon death of the retired employee, the Road Commission agrees to continue the above stated hospitalization insurance for the surviving spouse. For administrative employees, the Road Commission agrees to pay the full premium for hospitalization medical coverage for retired employees and their spouses. If an employee dies with 20 years service time, the spouse is covered. Expenditures are recognized on a pay as you go basis as premiums come due. During 2006, 41 retirees and/or spouses were eligible for benefits, and \$469,257 was recognized for post-employment health insurance expenditures in the Road Commission Operating Fund.

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE I--POST-EMPLOYMENT HEALTH CARE BENEFITS (Continued)

The Road Commission also provides dental and vision coverage for retirees and their spouses and supplemental insurance for Medicare eligible retirees and spouses. The cost of dental, vision and Medicare supplemental insurance coverage is included in total health insurance expenditures reported in the preceding paragraph.

Contributions made to the Retiree Health Care Trust Fund are recognized as expenditures in the Road Commission Operating Fund at the time the contribution is made. During the year, post-employment expenditures were \$60,000 for contributions made to the Retiree Health Care Trust Fund. In preparation for the upcoming reporting change discussed below, the Road Commission established a plan to hold and invest monies that will be used to fund future retiree health care benefit obligations. During 2006, the Road Commission established a trust and made an initial contribution of \$60,000 to the trust as explained above, and the trust had investment earnings of \$4,170, less fees of \$99 resulting in a December 31, 2006 balance of \$64,071. The Road Commission has excluded the retiree health care benefit plan from the December 31, 2006 financial statements. The Road Commission is not required to begin including the plan in its financial statements until 2008 as described below.

Upcoming Reporting Change--In 2004, the Governmental Accounting Standards Board issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care expenses over the working life of the employee, rather than at the time the health care expenses are paid. For the Clinton County Road Commission, the pronouncement is effective for the year ending December 31, 2008.

NOTE J--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefits' claims and participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers' compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The county road commissions in the State of Michigan established and created a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provisions of PA 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the State.

CLINTON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE J--RISK MANAGEMENT (Continued)

The Michigan County Road Commission Self-Insurance Pool Program (Pool) operates as a common risk-sharing management program for road commissions in Michigan; member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. If for any reason the Pool's resources available to pay losses are depleted, the payment of all unpaid losses of the member is the sole obligation of the member.

NOTE K--CONTINGENT LIABILITIES

The Road Commission, in connection with the normal conduct of its affairs, is involved in various claims, judgments, and litigation. The Road Commission's insurance carrier estimates that the potential claims against the Road Commission, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the Road Commission.

NOTE L--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the calendar year ended December 31, 2006, the Federal Aid received and expended by the Road Commission was \$2,386,142 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit.

During the calendar year ended December 31, 2006, the Road Commission did not receive any Federal grants for negotiated projects. Negotiated projects are projects that are performed by the Road Commission and are subject to single audit requirements, if the amount expended is \$500,000 or more. A single audit was not performed during for the calendar year ended December 31, 2006.

NOTE M--STATE TRUNKLINE MAINTENANCE REVENUE

The difference between the State Trunkline Maintenance revenues of \$1,023,959 and expenditures of \$1,038,054 is the result of the Michigan Department of Transportation (MDOT) Trunkline Maintenance audit for the 2003 and 2004 calendar years, which resulted in a refund due to the State of \$110,627. Because the Road Commission had previously recorded a liability of \$97,115 for an estimated refund due to MDOT for trunkline maintenance, the net effect of the audit related adjustments to 2006 Trunkline Maintenance revenues was \$13,512. The remaining \$583 difference was due to fringe benefit costs expended but not reported to MDOT in October 2006.

**CLINTON COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2006**

EXHIBIT G

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
License and Permits				
Permits	\$ 98,000	\$ 83,300	\$ 79,065	\$ (4,235)
Federal Grants				
Surface Transportation Program	1,665,979	1,528,486	1,205,506	(322,980)
Hazard Elimination Safety	409,672	409,672	88,506	(321,166)
Critical Bridge	621,202	724,852	638,626	(86,226)
Congestion/Air Quality	160,800	199,043	38,192	(160,851)
Economic D Funds	578,733	578,733	415,312	(163,421)
State Grants				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	3,455,800	3,559,800	3,479,865	(79,935)
Local Road	1,964,500	2,009,500	1,909,548	(99,952)
Primary Urban Road	419,200	484,900	484,809	(91)
Local Urban Road	149,700	185,700	185,128	(572)
Critical Bridge	116,475	123,449	119,742	(3,707)
Economic Development Funds				
Rural Primary "D" Funds	26,942	7,508	-	(7,508)
Urban Area "F" Funds	375,000	375,000	258,324	(116,676)
Contributions--Local Units				
Cities and Villages	4,000	61,998	61,962	(36)
Townships	1,600,000	1,919,461	1,919,461	-
Other	9,800	89,320	89,309	(11)
Charges for Services				
State Trunkline Maintenance	1,248,026	1,245,168	1,023,959	(221,209)
State Trunkline Nonmaintenance	-	38,366	38,365	(1)
Salvage Sales	3,600	7,459	7,384	(75)
Service Charges	84,230	91,109	60,515	(30,594)
Interest and Rents				
Interest Earned	60,000	182,560	173,811	(8,749)
Property Rentals	4,640	6,275	6,275	-
Other Revenue				
Private Contributions	1,500,000	1,335,400	1,335,383	(17)
Gain on Equipment Disposal	114,000	58,000	47,851	(10,149)
Gain on Surplus Property Disposal	1,000	1,217	-	(1,217)
Refunds and Reimbursements	-	1,288	1,288	-
Total Operating Revenue	14,681,299	15,317,564	13,678,186	(1,639,378)
Other Financing Sources				
Transfers In--Primary Government	-	100,000	100,000	-
Total Other Financing Sources	-	100,000	100,000	-
Total Revenue and Other Financing Sources	14,681,299	15,417,564	<u>\$ 13,778,186</u>	<u>\$(1,639,378)</u>
Fund Balance--January 1, 2006	2,119,732	2,672,441		
Total Budget	<u>\$16,801,031</u>	<u>\$18,090,005</u>		

CLINTON COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES
BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2006

EXHIBIT H

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvements	\$ 4,167,900	\$ 4,793,445	\$ 2,969,092	\$1,824,353
Routine and Preventive Maintenance	1,311,600	2,050,614	1,590,122	460,492
Local Road				
Construction/Capacity Improvements	1,500,000	1,515,665	1,325,859	189,806
Preservation/Structural Improvements	422,900	946,110	902,706	43,404
Routine and Preventive Maintenance	3,009,220	3,778,186	3,487,153	291,033
Primary Road Structure				
Preservation/Structural Improvements	-	50,097	49,562	535
Routine and Preventive Maintenance	10,134	11,760	385	11,375
Local Road Structure				
Preservation/Structural Improvements	837,790	956,448	943,058	13,390
Routine and Preventive Maintenance	55,000	29,011	29,635	(624)
State Trunkline Maintenance	1,248,026	1,248,026	1,038,054	209,972
State Trunkline Nonmaintenance	-	38,366	38,365	1
Equipment Expense--Net	(544,590)	(56,104)		
Direct			\$1,080,103	
Indirect			709,786	
Operating			362,592	
Less: Equipment Rentals			<u>(1,641,737)</u>	(566,848)
Distributive Expense	2,521,000	-		-
Administrative Expense--Net	358,952	386,359		
Administrative Expense			691,799	
Less: Handling Charges			(238)	
Overhead--State			(90,605)	
Overhead--Other			(249)	
Purchase Discounts			<u>(5,567)</u>	(208,781)
Work for Other Agencies	10,000	126,022	160,148	(34,126)
Capital Outlay--Net	275,289	275,290		
Capital Outlay			600,459	
Less: Depreciation Credits			(659,380)	
Equipment Retirements			<u>(9,439)</u>	343,650
Debt Service				
Principal	7,500	7,500	7,500	-
Interest	1,200	1,200	1,200	-
Drainage District	37,058	37,058	37,305	(247)
Contingencies	<u>550,000</u>			-
Total Expenditures	15,778,979	16,195,053	<u>\$ 13,617,668</u>	<u>\$2,577,385</u>
Fund Balance--December 31, 2006	<u>1,022,052</u>	<u>1,994,952</u>		
Total Budget	<u>\$ 16,801,031</u>	<u>\$ 18,190,005</u>		

CLINTON COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES IN FUND BALANCES
For the Year Ended December 31, 2006

EXHIBIT I

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 6,055,742	\$ 6,237,130	\$1,385,314	\$13,678,186
Total Expenditures	4,956,773	7,351,794	1,309,101	13,617,668
Excess of Revenues Over (Under) Expenditures	1,098,969	(1,114,664)	76,213	60,518
Other Financing Sources (Uses)				
Transfers In--Primary Government			100,000	100,000
Optional Transfers	(1,189,402)	1,189,402		-
Total Other Financing Sources (Uses)	(1,189,402)	1,189,402	100,000	100,000
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	(90,433)	74,738	176,213	160,518
Fund Balance--January 1, 2006	1,296,752	879,573	1,986,340	4,162,665
Fund Balance--December 31, 2006	<u>\$ 1,206,319</u>	<u>\$ 954,311</u>	<u>\$2,162,553</u>	<u>\$ 4,323,183</u>

CLINTON COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES
For the Year Ended December 31, 2006

EXHIBIT J

	Primary Road Fund	Local Road Fund	County Road Commission	Total
License and Permits				
Permits	\$ 24,629	\$ 16,706	\$ 37,730	\$ 79,065
Federal Grants				
Surface Transportation Program	1,205,506			1,205,506
Hazard Elimination Safety	88,506			88,506
Critical Bridge		638,626		638,626
Congestion/Air Quality	38,192			38,192
Economic D Funds	415,312			415,312
State Grants				
Michigan Transportation Fund				
Engineering	6,457	3,543		10,000
Allocation	3,479,865	1,909,548		5,389,413
Urban Roads	484,809	185,128		669,937
Critical Bridge		119,742		119,742
Economic Development Funds				
Urban Area "F" Funds	258,324			258,324
Contributions--Local Units				
Cities and Villages			61,962	61,962
Townships		1,919,461		1,919,461
Other		72,267	17,042	89,309
Charges for Services				
State Trunkline Maintenance			1,023,959	1,023,959
State Trunkline Nonmaintenance			38,365	38,365
Salvage Sales			7,384	7,384
Service Charges			60,515	60,515
Interest and Rents				
Interest Earned	54,142	36,726	82,943	173,811
Property Rentals			6,275	6,275
Other Revenue				
Private Contributions		1,335,383		1,335,383
Gain on Equipment Disposal			47,851	47,851
Refunds and Reimbursements			1,288	1,288
Total Operating Revenue	6,055,742	6,237,130	1,385,314	13,678,186
Other Financing Sources				
Transfers In--Primary Government			100,000	100,000
Total Other Financing Sources	-	-	100,000	100,000
Total Revenues and Other Financing Sources	\$ 6,055,742	\$ 6,237,130	\$ 1,485,314	\$ 13,778,186

CLINTON COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
For the Year Ended December 31, 2006

EXHIBIT K

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation/Structural Improvements	\$2,969,092			\$ 2,969,092
Routine and Preventive Maintenance	1,590,122			1,590,122
Local Road				
Construction/Capacity Improvements		\$1,325,859		1,325,859
Preservation/Structural Improvements		902,706		902,706
Routine and Preventive Maintenance		3,487,153		3,487,153
Primary Road Structures				
Preservation/Structural Improvements	49,562			49,562
Routine and Preventive Maintenance	385			385
Local Road Structures				
Preservation/Structural Improvements		943,058		943,058
Routine and Preventive Maintenance		29,635		29,635
State Trunkline Maintenance			\$1,038,054	1,038,054
State Trunkline Nonmaintenance			38,365	38,365
Equipment Expense--Net (Per Exhibit H)	93,543	285,377	131,824	510,744
Administrative Expense--Net (Per Exhibit H)	242,804	352,336		595,140
Work for Other Agencies			160,148	160,148
Capital Outlay--Net (Per Exhibit H)			(68,360)	(68,360)
Debt Service				
Principal			7,500	7,500
Interest			1,200	1,200
Drainage District	11,265	25,670	370	37,305
Total Expenditures	\$4,956,773	\$7,351,794	\$1,309,101	\$13,617,668



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

March 5, 2007

Clinton County Road Commission
Board of County Road Commissioners
3535 South US 27
St. Johns, Michigan 48879

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of the Financial Statements Performed in Accordance With
Government Auditing Standards

Dear Board Members:

We have audited the financial statements of the Clinton County Road Commission, a component unit of Clinton County, as of and for the year ended December 31, 2006, and have issued our report thereon dated March 5, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Clinton County Road Commission's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Clinton County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Clinton County Road Commission's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Road Commission's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Road Commission's financial statement that is more than inconsequential will not be prevented or detected by the Road Commission's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Road Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Clinton County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted a certain matter that we reported to the management of the Clinton County Road Commission in the accompanying Comments and Recommendations.

This report is intended solely for the information of the Clinton County Board of Road Commissioners, the Road Commission's management and others within the Road Commission and Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

CLINTON COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

NONCOMPLIANCE WITH STATE STATUTES

Our examination revealed the following instance of noncompliance with State statutes.

Expenditures in Excess of Appropriations--County Road Fund

Finding 06-1

Condition: Our examination of procedures used by the Road Commission to adopt and maintain operating budgets for the County Road Fund revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

The Road Commission's 2006 General Appropriations Act (budget) provided for expenditures of the General Operating Fund to be controlled to the activity level by the Road Commission.

During the fiscal year ended December 31, 2006, expenditures were incurred in excess of amounts appropriated in the amended budget as follows:

<u>Fund, Function and/or Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Local Road Structures			
Routine and Preventive Maintenance	\$ 29,011	\$ 29,635	\$ (624)
Equipment Expense--Net	(56,104)	510,744	(566,848)
Administrative Expense--Net	386,359	595,140	(208,781)
Work for Other Agencies	126,022	160,148	(34,126)
Drainage District	37,058	37,305	(247)

Criteria: The expenditure of funds in excess of appropriations is contrary to the provisions of Public Act 2 of 1968, as amended.

Recommendation: We recommend that Road Commission administrative personnel responsible for administering the activities of the Road Commission develop budgetary control procedures which will ensure that expenditures do not exceed amounts authorized in the General Appropriations Act or amendments thereof.